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**FISCAL IMPACT STATEMENT**

**LS 7140**

**BILL NUMBER:** HB 1301

**NOTE PREPARED:** Dec 29, 2004

**BILL AMENDED:**

**SUBJECT:** Phase-In of Annual Assessed Value Adjustments.

**FIRST AUTHOR:** Rep. Saunders

**BILL STATUS:** As Introduced

**FIRST SPONSOR:**

**FUNDS AFFECTED:** ☒ **GENERAL**  
☒ **DEDICATED**  
☐ **FEDERAL**

**IMPACT:** State & Local

STATE IMPACT	FY 2005	FY 2006	FY 2007
State Revenues			
State Expenditures		(15,800,000)	(45,200,000)
Net Increase (Decrease)		15,800,000	45,200,000

**Summary of Legislation:** This bill postpones from 2005 to 2006 the implementation of annual adjustments of real property assessed value and then phases in the annual adjustment determined for 2006.

**Effective Date:** Upon passage; January 1, 2005 (retroactive).

**Explanation of State Expenditures:** Under current law, annual adjustments to real property assessed values will begin with March 1, 2005, assessments for taxes payable in 2006. This bill would delay the effective date so that the adjustments would first be effective with March 1, 2006, assessments for taxes payable in 2007.

The full 2007 adjustment would update pricing from 1999 to 2005, a six-year update to catch up from the last reassessment to the year of implementation. The 2007 adjustment also includes factors for equalization of the values determined during the 2002 pay 2003 reassessment. Adjustments in other years will update pricing for only one year. This bill would phase in over three years the AV adjustment that would otherwise be effective with taxes due in 2007. Annual adjustments for taxes paid in 2008 and 2009 would be applied along with one-

third of the 2007 adjustment in each of those years.

Under current law, the additional PTRC and homestead credit payments that are attributable to the annual adjustments are estimated at \$47.4 M in CY 2006. The delay under this proposal would result in state savings of that amount in CY 2006. In addition, the three-year phase-in of the first year's adjustment would create a PTRC and homestead credit savings in CY 2007 and CY 2008.

The total savings would amount to an estimated \$15.8 M in FY 2006, \$45.2 M in FY 2007, \$34.4 M in FY 2008, and \$14.5 M in FY 2009. There would be no change in state expenditures after FY 2009. PTRC and Homestead credits are paid from the Property Tax Replacement Fund (PTRF). These credits are paid from the state General Fund if insufficient balances are available in the PTRF.

The Department of Local Government Finance (DLGF) is required to adopt rules establishing a system for annually adjusting the assessed value of real property to account for changes in value in those years since a general reassessment of property last took effect. The DLGF has adopted a rule that is currently making its way through the promulgation process. This fiscal impact statement is based on the proposed rule.

#### **Explanation of State Revenues:**

**Explanation of Local Expenditures:** The administration of annual AV adjustments by local assessors is estimated to cost up to \$6 M, statewide. If the effective date of the adjustments is delayed, some of the additional duties that local assessors will have might be able to be delayed from 2005 to 2006. However, much of the work for March 1, 2006, adjustments will still have to be done in 2005. The delay could save some, but not all, additional expenses in CY 2005.

In addition, the cost of local homestead credits would be affected by the delay. Ten Indiana counties provide local homestead credits funded with proceeds from the County Option Income Tax (COIT). The cost of the local homestead credit will increase along with the state homestead credit under annual adjustments. The increase in CY 2006 under current law is estimated at \$3.9 M. The delay under this proposal would result in local homestead credit savings of \$3.9 M in CY 2006. The phase-in would reduce local homestead credit expenses by \$3.6 M in CY 2007 and \$2.0 M in CY 2008.

The amount spent on local homestead credits reduces the amount available for distribution to the civil taxing units in the county. So, the local homestead credit savings would be distributed to local civil units.

**Explanation of Local Revenues:** Tax shifts between and within property classes that are associated with the annual adjustments would be delayed by one year and then phased in over three years under this proposal.

**State Agencies Affected:** Department of Local Government Finance.

**Local Agencies Affected:** Local assessors.

**Information Sources:** Fiscal analysis on proposed administrative rule #02-0297; Local Government Database.

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